

MEMORANDUM

To: Mr. Jerry Boop, Finance Director
From: Jerry L. Handley, C.P.A. *JLH*
Subject: SAS 114 Letter
Date: May 18, 2010

Enclosed please find our letter as required by Statement on Auditing Standards No. 114. Please distribute this communication to the elected officials. Should they have any questions regarding its content we are willing to appear before them and answer any of their questions. Alternatively, any member of the Board may call me directly at (352) 378-2461. The accompanying letter is generally routine correspondence if there are no significant audit issues. In summary, the letter communicates the following:

1. The auditors' responsibilities under generally accepted auditing standards.
2. Management's responsibilities during an audit.
3. Any significant problems or issues encountered during the audit.

We are happy to report that there were no significant difficulties encounter during the performance of the audit.

Certified Public Accountants

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COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

To the Honorable Mayor
and City Commissioners
Leesburg, Florida

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Leesburg, Florida, (the City) for the year ended September 30, 2009, and have issued our report thereon dated March 12, 2010. Professional standards require that we provide you with the following information related to our audit:

Our Responsibilities Under U.S. Generally Accepted Auditing Standards, OMB Circular A-133 and Chapter 10.550, Rules of the Auditor General

As stated in our engagement letter dated July 21, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program or state financial assistance project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*.

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133 and Chapter 10.550, *Rules of the Auditor General*, we examined, on a test basis, evidence about the City's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* and the Executive Office of the Governor's *State Projects Compliance Supplement* applicable to each of its major state financial assistance project for the purpose of expressing an opinion on the City's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the City's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated July 21, 2008.

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Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. The application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the depreciation and accumulated depreciation which is based on the useful lives determined by asset type.
- Management's estimate of the allowance for uncollectible accounts which is based on historical trends and an analysis of the collectibility of individual accounts.
- The liability for Other Postemployment Benefits (OPEB) at September 30, 2009, was \$4,821,617, as determined by an actuarial report prepared by Foster & Foster, Inc. as of October 1, 2008, and adjusted for actual employer contributions. There are significant underlying assumptions in that actuarial report, which if changed, would significantly affect the recorded amount.
- The 2009 activity in the Net Pension Obligation and the reported asset valued at \$1,299,947 at September 30, 2009, were estimated by management from information in the actuarial reports prepared by Foster & Foster, Inc. as of October 1, 2008. In addition, pension required supplementary data information (such as the actuarial accrued liability) contains assumptions and estimates. There are significant underlying assumptions in those actuarial reports, which if changed, would significantly affect the recorded amount. Furthermore investment values in the pension funds may be estimated by the custodian.
- As discussed in Note 15, the City also has estimates for claims payable of \$406,136 in the employee health insurance fund and \$1,319,975 in the workers' compensation insurance fund. These estimates are also based upon actuarial reports and are subject to change.

We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- The disclosure of deposits and investments in Note 3 to the financial statements which describes the various risks to which the City's investments may be exposed.
- The disclosure of OPEB in Note 12 which describes the OPEB activity and the assumptions and estimates in the actuarial reports used to arrive at the OPEB liability.

To the Honorable Mayor
and City Commissioners
Leesburg, Florida

Significant Audit Findings (Concluded)

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole. However, there were a few passed adjustments that were attached to the management representation letter dated March 12, 2010.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 12, 2010.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Honorable Mayor, City Commissioners and management of the City and is not intended to be and should not be used by anyone other than these specified parties.

Purvis, Gray and Company, LLP

March 22, 2010
Gainesville, Florida